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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 30, 1997

Mr. Richard Mills
Commissioner
State Education Department
Education Building
Albany, NY 12234

Mr. Robert J. Maurer
President
Higher Education Services Corporation
99 Washington Avenue
Albany, NY 12255

Re: Katharine Gibbs School
Melville, NY
Report 96-T-5

Dear Mr. Mills and Mr. Maurer:

According to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution, Section 8, Article 2 of the State Finance Law and a Memorandum of Agreement dated December 1, 1989 involving the State Comptroller, the Commissioner of Education, the President of the Higher Education Services Corporation (HESC) and the Director of the Budget, we audited the records and procedures used in administering the Tuition Assistance Program (TAP) at Katharine Gibbs School in Melville, New York for the 1993-94 through 1995-96 academic years.

Summary Conclusions

According to Section 665(3)(b) of the State Education Law, we determined that Katharine Gibbs was overpaid \$76,341 because school officials incorrectly certified some students as eligible for TAP awards. From our statistical sample, we disallowed 13 awards totaling \$9,903. A statistical projection of our audit disallowances to the entire population results in an audit disallowance of \$69,617. We also disallowed 11 awards totaling \$6,724 from outside the sample period. We determined that Katharine Gibbs was, therefore, overpaid a total of \$76,341 in TAP awards. We recommend that HESC recover this amount plus applicable interest from Katharine Gibbs.

Background

Katharine Gibbs, a two-year degree-granting school located in Melville, New York, offers secretarial, business and professional education programs leading to associate degrees or certificates. Most of the programs offered at Katharine Gibbs are approved by the State Education Department (SED) and qualify eligible students for State TAP awards.

TAP is the largest of the various student grants and scholarship programs administered by HESC. It is an entitlement program designed to provide tuition aid to eligible full-time students who are enrolled in variety of programs.

Draft copies of this report were provided to SED, HESC and Katharine Gibbs' officials for their review and comment. SED and HESC officials have agreed with the findings in this report. Katharine Gibbs officials disagreed with most of our findings. We have considered their comments, and where appropriate, have revised the audit results in preparing this final report.

Audit Scope

The objective of our financial and compliance audit was to determine whether Katharine Gibbs' management complied with the State Education Law (Law) and the Commissioner of Education's Rules and Regulations (Regulations) with regard to certifying students as eligible for TAP awards. The scope of our audit did not include reviewing the records and procedures of HESC as they relate to determining the amount of the awards.

According to HESC's records, Katharine Gibbs certified 1,147 students for 2,662 TAP awards totaling \$2,542,259 during the 1993-94 through 1995-96 academic years at its Melville campus. We selected and reviewed a statistical sample of 200 awards totaling \$186,425 paid on behalf of 185 students during that period. We also reviewed other awards that came to our attention during the audit.

We did our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those operations of Katharine Gibbs that we include within our audit scope. These standards also require that we review and report on Katharine Gibbs' internal control system and its compliance with those laws and regulations that are relevant to Katharine Gibbs' operations and are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting records and applying such other auditing procedures as we consider necessary. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

In planning and doing our audit of Katharine Gibbs, we reviewed management's internal control system. Our audit was limited to a preliminary review of the internal control system to obtain an understanding of the environment and the flow of transactions through the accounting system and other systems supporting the claims for student financial aid.

Katharine Gibbs' management is responsible for complying with the Law and the Regulations. In connection with our audit, we did tests of Katharine Gibbs' compliance with certain provisions of the Law and the Regulations. Our objective in doing these tests was to obtain reasonable assurance that the TAP awards Katharine Gibbs' certified were for eligible students. Our objective was not to provide an opinion on Katharine Gibbs' overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, Katharine Gibbs was generally in compliance with the provisions referred to in the preceding paragraph, except as noted in the following section of this report.

Audit Disallowance

The following table summarizes the disallowances that resulted from our audit.

<u>Reason for Disallowances</u>	<u>Number of Awards</u>	<u>Amount</u>	<u>Total</u>
Disallowances from the Statistical Sample:			
Students Not in Good Academic Standing	8	\$7,997	
Students Not Properly Matriculated	3	854	
Students Not in Full-Time Attendance	2	1,718	
Student Not Meeting Residency Requirement	<u>1</u>	<u>526</u>	
Total Sample Disallowance	14	11,095	
Less: Disallowance for More Than One Reason	<u>1</u>	<u>1,192</u>	
Net Sample Disallowance	<u>13</u>	<u>\$9,903</u>	
Projected Amount			\$69,617
Disallowances from Outside the Statistical Sample:			
Students Not in Good Academic Standing	7	\$4,897	
Student Not in Full-Time Attendance	1	1,350	
Student's TAP Not Posted	<u>3</u>	<u>477</u>	
Total Outside of Sample Disallowances	<u>11</u>		<u>6,724</u>
Total Audit Disallowances			<u>\$76,341</u>

The various types of disallowances are discussed in the following sections of this report. Student names and related information were provided to Katharine Gibbs officials separately.

Students Not in Good Academic Standing

Criteria - Section 665 of the Law requires that students be in good academic standing to be eligible to receive TAP awards. Section 145-2.2 of the Commissioner of Education's Rules and Regulations (Regulations) states that to maintain good academic standing a student must (1) maintain satisfactory academic progress toward completion of a program and (2) pursue the program of study in which he or she is enrolled.

To maintain satisfactory academic progress, a student must have accrued at least a certain number of credits and earned at least a certain cumulative grade point average (GPA) as required in the college's published Satisfactory Academic Progress chart approved by SED. A student is pursuing the approved program of study if, during each term of study for which an award is received, the student receives a passing or failing grade in a predetermined percentage of the minimum full-time course load based on the student's TAP payment level.

When a student fails to maintain good academic standing, the student loses prospective TAP eligibility. A student can regain good academic standing by making up the deficiency at his or her own expense, obtaining a one-time TAP waiver, remaining out of school for at least one calendar year or transferring to another institution.

Audit Determination - We identified eight awards from our sample period and seven awards from outside the sample period paid on behalf of nine students who failed to maintain good academic standing. These students did not accrue enough credits or earn the minimum GPA required on Katharine Gibbs' chart of academic progress to maintain eligibility for the awards they received. In addition, one of these students also did not meet the pursuit of program criteria because she did not pass or fail the required number of credit hours for the award she received.

School Officials' Position - Katharine Gibbs' officials disagreed with eight of these disallowed awards. For one award, officials stated that the student's Psychology grade, during the summer 1992 term, had been changed from an "F" to a "D". Therefore the student remained in good academic standing during the Fall 1992 term as well as subsequent terms. The remaining awards are subsequent awards paid to students who were not in good academic standing. Katharine Gibbs' officials stated that the SED Regulations relative to good academic standing provide that a student who does not maintain good academic standing is suspended from TAP eligibility until he or she makes satisfactory progress toward the completion of the program's academic requirements for a period of one term. Therefore, the Regulations do not authorize our disallowing awards for the other terms.

Auditors' Comments - For the first award, the instructor's grade book, provided by Katharine Gibbs' officials showed that this student received an "F" for Psychology in the summer 1992 term. Officials did not provide any evidence to document that this student's grade had been changed to a "D". For the remaining awards disallowed, the citation used in the school's response stating that a student is suspended from TAP until he or she makes satisfactory progress for one term was amended to one-year as stated in SED's guidelines dated March 1983.

Students Not Properly Matriculated

Criteria - Section 52.2 of the Regulations states “the admission of a student shall be determined through an orderly process using published criteria which shall be uniformly applied.” Meeting this criterion is demonstrated when students meet a school’s admission criteria as published in its catalog. Katharine Gibbs’ catalog requires that, for admission, a student must have a high school diploma or its equivalent and pass the CPAt (Career Programs Assessment test) admission test.

Audit Determination - We identified three awards from the sample period that were paid to three students who were not properly matriculated. We found that these three students failed the CPAt test which is part of Katharine Gibbs’ admission requirements.

School Officials’ Position - Katharine Gibbs officials stated that, although the students failed the CPAt, their eventual success showed that they had the capacity to undertake and complete their courses of study.

Auditors’ Comments - Section 52.2 of the Regulations requires that students meet the school’s published admission standards to be properly matriculated for TAP eligibility. Furthermore, matriculation requirements for TAP eligibility purposes are not based on the prospective student’s results. They are based on meeting requirements at the time of admission.

Students Not in Full-Time Attendance

Criteria - Section 145-2.1 of the Regulations states, in part, that for a degree-granting school, full-time study is defined as enrollment for at least twelve hours a semester for a semester of fifteen weeks or its equivalent. Also, SED’s Chief Executive Officer’s (CEO) Bulletin 86-17 states that if a student repeats a course in which a passing grade was already achieved, the course cannot count as part of the student’s minimum full-time course load for financial aid purposes.

Audit Determination - We identified two awards from our statistical sample and one from outside the sample period paid to students who did not maintain full-time status. One student did not attend school during the term in which she received a TAP award. Another student was not enrolled in enough classes to maintain full-time status. The third student repeated a course that she successfully completed in a prior term.

School Officials’ Position - For the student who did not take any classes, Katharine Gibbs’ officials stated that they may have certified the student in error. For the second award, officials stated that for evening students, the computer system was not programmed to include Office Procedures “B” on the students’ transcripts. However this student was enrolled in the course and was full-time. For the remaining award, school officials stated that the previous owners allowed students to repeat previously passed courses to improve their GPA.

Auditors’ Comments - For the second student, school officials did not submit any documentation to support that the student registered for Office Procedures “B.” As a result, this student was not full-time. For the third student, since the Regulations state that a previously passed course cannot count toward

full-time attendance, we are maintaining our disallowance.

Student Not Meeting Residency Requirement

Criteria - Section 661 of the Law states “. . . an applicant for an award at the undergraduate level of study must . . . have been a legal resident of the state for at least one year immediately preceding the beginning of the semester, quarter or term of attendance for which application for assistance is made . . .” Further, HESC’s Manual on Programs and Procedures stipulates that institutions should not certify eligibility for State awards for any student whose New York State residence is suspect.

Audit Determination - We found that Katharine Gibbs’ officials certified one student from the statistical sample who did not meet the residency requirements. This student stated she was a resident of Arizona on her financial aid application. There were no New York tax returns in the student’s folder or any other documentation to indicate when the student had moved to New York.

School Officials’ Position - Katharine Gibbs’ officials stated that the student completed a TAP 1995-96 request for information form. On this form she indicated that she was a New York State resident. Officials stated that, since HESC no longer questioned this issue and did not request an affidavit of residency, they did not pursue the matter any further.

Auditors’ Comments - School officials are responsible for verifying any student residency claims that appear suspect. Documents in this student’s file indicated that the student was not a New York State resident for one year prior to receiving TAP at Katharine Gibbs.

Student’s TAP Not Posted

Criteria - Section 2205.3(d) of the Regulations requires that each student’s account be credited within seven days of receiving an award.

Audit Determination - We found that Katharine Gibbs received three TAP awards for one student in which the full amount of the award was not posted to the student’s account.

School Officials’ Position - Katharine Gibbs officials’ agree with our determination. However, they provided a copy of the student’s account card and related documentation showing that she owed the school \$1,143.47 when she withdrew. School officials stated that, although the student’s TAP award had not been posted, any TAP award was the property of the school, not the student. Therefore, posting the \$477 results in a reduction of the student’s debt to Katharine Gibbs. School officials feel that there should be no refund of these funds to the State, and the disallowance should be withdrawn.

Auditors’ Comments - The fact that the student owed money to the school when she withdrew does not relieve Katharine Gibbs of its obligation to post TAP awards to the student’s account as required by the Regulations.

Other Matters Needing Attention

Students Graduating Without Meeting Requirements

Criteria - According to Katharine Gibbs' catalog, to graduate from any program, a student must have earned a minimum of a 2.0 cumulative GPA and have passed all required courses with a "D-" or higher.

Audit Determination - We found 11 sampled students whose transcripts showed that they graduated without achieving a 2.0 GPA or without passing all the classes required. When we reviewed these students' folders, we found that nine students received their degrees or certificates. However, we could not determine from the folders of the other two students whether they received their degrees. While this situation does not affect the students' TAP eligibility, the students should not have graduated until they had met all the graduation requirements.

School Officials' Position - These students graduated under the tenure of the prior ownership which apparently did not review students academic standing prior to graduation. The current ownership has instituted procedures to ensure that a student will not be able to graduate based on course completion only and that good academic standing will be a prerequisite for graduation.

Practicums For Hotel and Restaurant Management

Criteria - Katharine Gibbs offers an Associate Degree in Hotel and Restaurant Management. The program consists of 101 quarter credits, 19 of which are for Practicums. Students take Practicum I (seven quarter credits) in the fifth quarter and Practicum II (12 quarter credits) in the sixth quarter. According to Katharine Gibbs catalog, Practicum I allows the students to gain actual work experience in hotel and restaurant management, and Practicum II builds on the experience gained in Practicum I. Students are supposed to begin applying the skills learned in their hospitality industry education at these places of employment. Students must work a minimum of 580 hours to earn the 19 quarter credits.

According to a school official, there are no written guidelines issued by SED regarding the types of work students should do to earn credit for Practicum I and II. In addition, Katharine Gibbs had no written guidelines on the content of the Practicum courses prior to January 1996. According to the January 1996 procedures, any kind of work in a hotel or restaurant (or an establishment with food service) based in New York qualifies as an eligible job for the Practicum. There are no specifics about what the students' job responsibilities should be to earn credit for these two courses.

Audit Determination - We reviewed the Practicum files for the 38 students in our statistical sample who were enrolled in the Hotel and Restaurant Management Program. Of the 59 jobs these students held, many did not appear to comply with the Practicum requirements. These positions included a food server at a fast food restaurant, a banquet server at a catering facility, a waitress at a restaurant and a bartender. One student turned down a job as a night auditor at a hotel, a job directly related to the objectives of his education, because he did not want to quit his part-time bartending job. Therefore, the school allowed the bartending job to count towards his Practicum requirement.

School Officials' Position - Katharine Gibbs' officials maintain that all employment held by the students eligible for the Practicum complied with the Practicum requirements.

Auditors' Comments - In SED's response to the draft report, it stated that staff are currently developing program registration standards which include appropriate standards for internships.

Overcertifying Tuition to HESC

Criteria - Section 661 of the Law states that a TAP award cannot exceed the tuition charged for specific terms. Katharine Gibbs tuition charge depends on the program in which the student is enrolled.

Audit Determination - We found that for 69 of our 200 sampled awards (35 percent), Katharine Gibbs' officials certified to HESC a higher tuition amount than they charged. The overcertification of tuition did not result in excess TAP awards to these students. However, there is a risk that higher TAP awards would be paid to students when the school certifies a larger tuition amount than what was charged. Katharine Gibbs should certify the correct amount of tuition each term.

School Officials' Position - Katharine Gibbs did not provide a formal response to this issue.

Recommendations to Higher Education Services Corporation

1. *Recover the \$76,341 plus applicable interest from Katharine Gibbs for its incorrect TAP certifications.*
2. *Review the appropriateness of Katharine Gibbs tuition charges. Ensure that the term tuition certified does not exceed the tuition liability incurred for that term.*

Recommendations to the State Education Department

1. *Ensure that Katharine Gibbs is in compliance with SED regulations as they pertain to the various issues stated in this report.*
2. *Examine the reasonableness of the jobs worked as part of the Practicum requirements and ensure that the type of employment qualifies for the Practicums.*

Major contributors to this report were David R. Hancox, William Challice, Frank Russo, Kenneth I. Shulman, April Neitlich, Sal D'Amato and Don Collins.

We wish to express our appreciation to the management and staff of Katharine Gibbs for their courtesies and cooperation extended to our auditors during this audit.

Yours truly,

Carmen Maldonado
Audit Director

cc: David Schuchman
Patricia A. Woodworth